

September 16, 2005

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VIA HAND DELIVERY

The Honorable Gregory M. Sleet
United States District Court
District of Delaware
J. Caleb Boggs Federal Building
844 N. King Street
Room 4324, Lockbox 19
Wilmington, DE 19801.

Re: Integrated Health Services of Cliff Manor, Inc. v. THCI Company LLC, Index No. 04-910; THCI Company LLC v. Abe Briarwood Corp., Index 04-367

Dear Judge Sleet:

This law firm is counsel to THCI Company LLC ("THCI") in the above referenced actions. We write to inform the Court of the latest developments that directly affect parties in the above cases.

As this Court is aware, IHS Long Term Care, Inc. ("LTC"), its subsidiaries ("Subsidiaries," and collectively with LTC, the "Plaintiffs"), and Abe Briarwood Corporation, defendant in THCI Company LLC v. Abe Briarwood Corp., Index 04-367 also pending before the Court, are all purportedly owned or controlled by Mr. Harry Grunstein. Mr. Grunstein's financial practices have been recently brought into the spotlight by United States Senator Mark Pryor (Ark.), who has requested that the Inspector General of the U.S. Department of Health and Human Services investigate North American Senior Care ("North American"), another entity purportedly controlled by Mr. Grunstein. North American is proposing to acquire a large public nursing home company, Beverly Enterprises, based in Arkansas. Senator Pryor is concerned about North American's inability to meet its obligations to creditors and patients.¹ In addition, Arkansas State Representative Stephen Bright scheduled a meeting of the House Public Health, Welfare and Labor Committee to discuss North American's use of Medicaid and Medicare funds.

Senator Pryor's and Representative Bright's concerns stem from the recent acquisition of Mariner Health, Inc. ("Mariner Health") by National Senior Care, Inc. ("National"), yet another entity purportedly controlled by Mr. Grunstein, after which National made "a significant distribution of money to shareholders ... and is not meeting its financial obligations to creditors or its obligations to patients."² In his letter to Inspector General Levinson, Senator Pryor stated

¹ See Senator Pryor's letter dated August 26, 2005 to Daniel R. Levinson, Inspector General of the U.S. Department of Health and Human Services, a copy of which is attached hereto.

² *Id.*

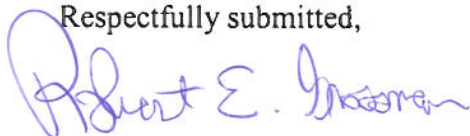
that "[i]n light of these events, I am concerned that there is potential for the [North American] purchase of [Beverly] to result in significant hardship for many patients."³

Senator Pryor's concerns are also shared by Mr. David A. Smith, the CEO of PSS World Medical, Inc. ("PSS"). PSS publicly announced that it has decided not to renew a long-term distribution agreement between its subsidiary Gulf South Medical Supply and Beverly citing concerns that after the acquisition of Beverly, North American would be unable to "honor and abide by past practices with regard to trade and credit terms."⁴ These concerns are based on Mariner's alleged refusal to pay almost \$5 million for goods sold to it by Gulf South Medical Supply, a subsidiary of PSS, which is the subject of litigation between Gulf South Medical Supply and Mariner in the Superior Court of Dekalb County, Georgia.⁵

Mr. Grunstein and his affiliates' financial machinations may very well be the reason why Plaintiffs have failed to pay rent for June, July, August and September 2005, have fallen further in arrears with respect to real estate taxes, have not vacated the facilities that the Subsidiaries lease from THCI, and now owe well over \$3,000,000.00 in rent and other lease-related charges. Indeed, THCI's attempts to discover matters relating to Mr. Grunstein's financial practices have been ignored by Briarwood.

In light of these developments, we respectfully renew our earlier request for a conference with the Court to explore all avenues of resolving this matter on an expedited basis.

Respectfully submitted,

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Robert E. Grossman

REG/imt

cc. Michael R. Lastowski, Esq.
Richard W. Riley, Esq.
Christopher M. Winter, Esq.

³ *Id.*

⁴ "PSS World Medical Decides Not to Renew Long-Term Contract with Beverly Enterprises," available at http://www.nasdaq.com/aspxcontent/NewsStory.aspx?cpath=20050913%20ACQBIZ200509130938BIZWIRE_USPR__BW5721.htm&symbol=PSSI&selected=PSSI&selecteddisplaysymbol=PSSI&coname=PSS%20World%20Medical%20Inc.&logopath=%20flogos%20PSSI.GIF&market=NASDAQ-NM&pageName=Company%20News, a copy of which is attached hereto.

⁵ See the attached copy of Verified Complaint on Open Account filed in Gulf South Medical Supply, Inc. v. Sava Senior Care, Inc. f/k/a/ Mariner Health Care, Inc. with the Superior Court of Dekalb County, Georgia in civil action File No. 05CV8409-5.

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